

# U.S. Flash

## Beige Book Finds Moderate Growth Through 1Q14

- **Overall economic activity improved in majority of regions from previous report**
- **Winter weather consistently cited as reason for slowdown in specific regions**
- **Bottled-up demand should boost activity over the coming months**

The latest Federal Reserve Beige Book released for April indicated that economic activity increased in the majority of the twelve districts. Extreme winter weather was the echoed theme throughout the report as the main downside bias to recent economic activity. Still, the report showed that ten of the twelve major districts underwent modest or moderate growth, while only two regions, Cleveland and St. Louis, noted a slowdown. In the previous report, eight of the twelve regions described growth as moderate or modest, so in the aggregate, economic activity in the country is trending upward despite the severe weather experienced throughout the past few months.

Consumer spending showed improvements from the previous quarter as expected. Retailers cited weak sales in the beginning of 2014, though activity appeared to pick up in most regions during the latter weeks of the quarter. Cleveland may be most negatively affected by the extreme climate, as winter weather is still dampening economic activity and likely contributed to the overall decline for the region. Notably, Boston mentioned an acceleration in online sales, which mitigated a slowdown in traditional brick-and-mortar store sales. Auto sales growth strengthened in most regions, though again Cleveland was the only region where there was a slowdown in activity.

Real estate activity was less than stellar across most regions in the report. Home sales in Kansas City improved, and the Dallas region continued to trend above-average in relation to the rest of the country, but the rest of the regions either did not see significant improvements in housing activity or witnessed a decline. The primary reason for the declines were weather related, though increased mortgage rates and a bump in home prices also affected the housing market. Meanwhile, commercial and residential construction remained strong in Dallas and Kansas City, while most other regions noted modest to moderate overall activity. Minneapolis was the only region to have a decline in residential construction activity and Cleveland was the sole region to see commercial construction activity fall, as both regions were likely impacted the heaviest by extreme snowfall.

Manufacturing data was a mixed bag, but a near-term pickup in momentum is likely. The Chicago, Minneapolis and San Francisco Districts were the healthiest in terms of manufacturing activity, while the rest of the regions showed steady or mild growth. Notably, nine of the twelve districts stated that climate reduced manufacturing activity, though conditions improved through the quarter. Manufacturing has been one of the components hit the hardest by the weather, and now that spring has arrived, shipping activity should begin to accelerate and regain momentum experienced during the second half of last year.

Labor market conditions showed modest signs of strengthening, though it varied by region. Interestingly, six out of the twelve regions claimed they had difficulty filling their vacant openings with skilled workers. This supports our concern that the country may be facing an underlying structural employment issue, where a mismatch of skills and jobs is prohibiting labor market improvement. Meanwhile, wage pressure was a non-issue in nearly all regions, though Dallas did have citations of upward wage pressures. This is expected, as the Dallas region includes Houston and Dallas, which are two of the fastest growing MSA's in terms of job creation.

Overall, the report confirmed our belief that the winter weather hampered economic activity throughout most of the country. Still, activity picked up over the last month of the quarter, so it appears that the economy is rebounding when it comes to consumption, manufacturing and employment. Some of the lagging regions which were hit the most by the winter weather likely have pent-up demand, and now that the winter is gone, there should be some notable improvements in overall economic activity in these areas. With no foreseeable economic setbacks in the near-future, we expect that the next Beige Book will paint a brighter picture for economic activity all-around, particularly in real estate, where winter weather struck the hardest.

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